U.S. SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Form 10-Q

[X] Quarterly report Pursuant to section 13 or 15(d) of the Securities and Exchange act of 1934
For the quarter ended September 30, 2003

[ ] Transition report pursuant to section 13 or 15(d) of the Securities and Exchange act of 1934
For the transition period from ________ to ________

Commission file number **0-23881**

COWLITZ BANCORPORATION
(Exact name of registrant as specified in its charter)

Washington Sate or other jurisdiction of incorporation or organization	**91-1529841** (IRS Employer Identification No.)

927 Commerce Ave., Longview, Washington 98632
(Address of principal executive offices) (Zip Code)

(360) 423-9800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)

Yes[ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value on October 31, 2003: 3,885,652 shares

COWLITZ BANCORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

Forward-Looking Statements

Management's discussion and the information in this document and the accompanying financial statements contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by words such as "expect", "believe", "intend", "anticipate", "estimate" or similar expressions, and are subject to risks and uncertainties that could cause actual results to differ materially from those stated. Examples of such risks and uncertainties that could have a material adverse effect on the operations and future prospects of the Company, and could render actual results different from those expressed in the forward-looking statements, include, without limitation: changes in general economic conditions, competition for financial services in the market area of the Company, the level of demand for loans, quality of the loan and investment portfolio, deposit flows, legislative and regulatory initiatives, and monetary and fiscal policies of the U.S. Government affecting interest rates. The reader is advised that this list of risks is not exhaustive and should not be construed as any prediction by the Company as to which risks would cause actual results to differ materially from those indicated by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

COWLITZ BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION
(dollars in thousands)

	(unaudited) September 30, 2003	(audited) December 31, 2002
ASSETS		
Cash and cash equivalents	$ 35,290	$ 43,691
Investment securities:		
Investments available-for-sale (at fair value, cost of $37,279 and $32,759 at September 30, 2003 and December 31, 2002, respectively)	37,649	33,276
Investments held-to-maturity (at amortized cost, fair value of $5,346 and $362 at September 30, 2003 and December 31, 2002, respectively)	5,319	357
Total investment securities	42,968	33,633
Federal Home Loan Bank stock, at cost	2,013	2,346
Loans held-for-sale	11,221	63,645
Loans, net of deferred loan fees	167,307	194,506
Allowance for loan losses	(5,621)	(6,150)
Total loans, net	161,686	188,356
Premises and equipment, net of accumulated depreciation of $4,870 and $4,586 at September 30, 2003 and December 31, 2002, respectively	4,289	4,377
Cash surrender value of bank owned life insurance	8,074	-
Goodwill	2,323	2,352
Intangible assets, net of accumulated amortization of $1,668 and $1,468 at September 30, 2003 and December 31, 2002, respectively	302	502
Accrued interest receivable and other assets	5,408	6,262
TOTAL ASSETS	$ 273,574	$ 345,164
LIABILITIES		
Deposits:		
Non-interest-bearing demand	$ 51,381	$ 46,539
Savings and interest-bearing demand	99,091	108,961
Certificates of deposit	79,054	134,620
Total deposits	229,526	290,120
Short-term borrowings	1,000	2,525
Long-term borrowings	8,471	18,706
Accrued interest payable and other liabilities	1,773	2,550
TOTAL LIABILITIES	240,770	313,901
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2003 and December 31, 2002	-	-
Common stock, no par value; 25,000,000 shares authorized with 3,884,232 and 3,818,272 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	17,880	17,491
Additional paid-in capital	1,538	1,538
Retained earnings	13,142	11,894
Accumulated other comprehensive income, net of taxes	244	340
TOTAL SHAREHOLDERS' EQUITY	32,804	31,263
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 273,574	$ 345,164

See accompanying notes

COWLITZ BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(unaudited)	2003	2002	2003	2002
INTEREST INCOME				
Interest and fees on loans	$ 3,439	$ 4,830	$ 11,451	$ 14,651
Interest on taxable investment securities	205	441	659	1,324
Interest on non-taxable investment securities	27	4	36	11
Other interest and dividend income	115	155	450	563
Total interest income	3,786	5,430	12,596	16,549
INTEREST EXPENSE				
Savings and interest-bearing demand	276	475	915	1,312
Certificates of deposit	682	1,320	2,546	4,755
Short-term borrowings	3	12	15	36
Long-term borrowings	164	235	533	706
Total interest expense	1,125	2,042	4,009	6,809
Net interest income before provision for loan losses	2,661	3,388	8,587	9,740
PROVISION (BENEFIT) FOR LOAN LOSSES	(36)	352	530	1,007
Net interest income after provision for loan losses	2,697	3,036	8,057	8,733
NON-INTEREST INCOME				
Gains on loans sold	1,110	1,323	4,106	3,495
Other mortgage and escrow fees	580	1,169	2,735	2,895
Service charges on deposit accounts	211	191	695	540
Credit card income	175	142	471	399
Increase in cash surrender value of bank-owned life insurance	74	-	74	-
Net gains on sales of investment securities available-for-sale	-	49	-	88
Loss on sale of repossessed assets	(87)	(42)	(50)	(21)
Fees for fiduciary and other customer services	112	141	348	389
Total non-interest income	2,175	2,973	8,379	7,785
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,208	2,897	7,297	7,915
Net occupancy and equipment expense	566	572	1,778	1,740
Accounting, legal and other professional services	329	326	1,275	862
Credit card expense	163	135	469	382
FDIC deposit insurance	119	140	390	430
Cost relating to other real estate owned	46	78	147	209
Other non-interest expenses	974	1,060	3,173	3,026
Total non-interest expense	4,405	5,208	14,529	14,564
Income from continuing operations before provision for income taxes	467	801	1,907	1,954
PROVISION FOR INCOME TAXES	147	287	659	346
Income from continuing operations	320	514	1,248	1,608
DISCONTINUED OPERATIONS:				
INCOME FROM OPERATIONS, NET OF TAX	-	-	-	6
GAIN ON DISPOSAL, NET OF TAX	-	-	-	279
Income from discontinued operations	-	-	-	285
Income before cumulative effect of a change in accounting principle	320	514	1,248	1,893
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX	-	-	-	(791)
Net income	$ 320	$ 514	$ 1,248	$ 1,102
BASIC EARNINGS (LOSS) PER SHARE OF COMMON STOCK				
Continuing operations	$ 0.08	$ 0.14	$ 0.32	$ 0.42
Discontinued operations	-	-	-	0.08
Cumulative effect of a change in accounting principle	-	-	-	(0.21)
Net income per basic share of common stock	$ 0.08	$ 0.14	$ 0.32	$ 0.29
DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK				
Continuing operations	$ 0.08	$ 0.13	$ 0.31	$ 0.42
Discontinued operations	-	-	-	0.08
Cumulative effect of a change in accounting principle	-	-	-	(0.21)
Net income per diluted share of common stock	$ 0.08	$ 0.13	$ 0.31	$ 0.29
WEIGHTED-AVERAGE SHARES OUTSTANDING – BASIC	3,872,052	3,779,679	3,842,438	3,739,441
WEIGHTED-AVERAGE SHARES OUTSTANDING – DILUTED	4,037,631	3,892,895	3,967,981	3,824,697

See accompanying notes

COWLITZ BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands)

	Common stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss)
	Shares	Amount					
BALANCE, December 31, 2001	3,692,560	$ 16,802	$ 1,538	$ 10,398	$ 10	$ 28,748	
Comprehensive income:							
Net income	-	-	-	1,496	-	1,496	$ 1,496
Net changes in unrealized gains on investments available-for-sale, net of deferred taxes of $176	-	-	-	-	330	330	330
Comprehensive income							$ 1,826
Proceeds from the exercise of stock options	87,600	479	-	-	-	479	
Issuance of common stock in connection with acquisition	38,112	210	-	-	-	210	
BALANCE, December 31, 2002	3,818,272	17,491	1,538	11,894	340	31,263	
Comprehensive income:							
Net income	-	-	-	1,248	-	1,248	$ 1,248
Net changes in unrealized gains on investments available-for-sale, net of deferred taxes of $42	-	-	-	-	(96)	(96)	(96)
Comprehensive income							$ 1,152
Proceeds from the exercise of stock options	65,960	389	-	-	-	389	
BALANCE, September 30, 2003 (unaudited)	3,884,232	$ 17,880	$ 1,538	$ 13,142	$ 244	$ 32,804	

See accompanying notes

COWLITZ BANCORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
(unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations, net of a change in accounting principle in 2002	$ 1,248	$ 817
Adjustments to reconcile net income from continuing operations to net cash from operating activities:		
Deferred tax provision (benefit)	52	(348)
Depreciation and amortization	604	671
Impairment of goodwill	-	1,208
Provision for loan losses	530	1,007
Increase in cash surrender value of bank owned life insurance	(74)	-
Net amortization of investment security premiums and accretion of discounts	101	251
Federal Home Loan Bank stock dividends	(95)	(174)
Net loss on sales of repossessed assets	50	21
Gain on the sale of investment securities available-for-sale	-	(88)
Loss on the disposal of premises and equipment	11	20
Gains on loans sold	(4,106)	(3,495)
Origination of loans held-for-sale	(334,781)	(312,354)
Proceeds from loan sales	391,311	304,025
Decrease (increase) in accrued interest receivable and other assets	811	(387)
Decrease in accrued interest payable and other liabilities	(777)	(1,333)
Net cash from continuing operations	54,885	(10,159)
Net income from discontinued operations	-	285
Adjustments to reconcile net income from discontinued operations to net cash from operating activities:		
Gain on sale of discontinued operations	-	(423)
Increase in accrued interest receivable and other assets	-	(16)
Increase in accrued interest payable and other liabilities	-	120
Net cash from discontinued operations	-	(34)
Net cash from operating activities	54,885	(10,193)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of bank owned life insurance	(8,000)	-
Proceeds from sale of foreclosed assets	1,634	529
Proceeds from maturities of investment securities held-to-maturity	-	2,599
Proceeds from maturities and sales of investment securities available-for-sale	17,967	26,866
Purchases of investment securities:		
Held-to-maturity	(4,965)	(559)
Available-for-sale	(22,586)	(36,356)
Proceeds from redemption of Federal Home Loan Bank stock	428	1,391
Net decrease in loans	24,529	15,206
Purchases of premises and equipment	(331)	(58)
Proceeds from the sale of premise and equipment	3	318
Net proceeds from the sale of discontinued operations	-	3,345
Net cash from investment activities	8,679	13,281
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in demand, savings, and interest-bearing demand deposits	(5,028)	33,494
Net decrease in certificates of deposit	(55,566)	(42,962)
Net decrease in short-term borrowings	(1,525)	-
Repayment of long-term borrowings	(10,235)	(227)
Proceeds from the exercise of stock options	389	623
Net cash from financing activities	(71,965)	(9,072)
Net decrease in cash and cash equivalents	(8,401)	(5,984)
CASH AND CASH EQUIVALENTS, beginning of period	43,691	50,177
CASH AND CASH EQUIVALENTS, end of period	$ 35,290	$ 44,193

See accompanying notes

1. Nature of Operations

Cowlitz Bancorporation (the "Company") was organized in 1991 under Washington law to become the holding company for Cowlitz Bank (the "Bank"), a Washington state chartered bank that commenced operations in 1978. The principal executive offices of the Company are located in Longview, Washington. The Company operates as a community bank under the names Cowlitz Bank with four branches in Cowlitz County and southwest Washington and Bay Bank operating full service branches in Bellevue, Washington, and Portland, Oregon, a limited service branch in Wilsonville, Oregon and a loan production office in Vancouver, Washington. Effective November 1, 2003, the branches in Oregon that had been doing business as Northern Bank of Commerce, have been changed to Bay Bank branches. Cowlitz Bank also provides mortgage banking services through its Bay Mortgage and Bay Escrow divisions with offices in Seattle, Bellevue, Longview, and Vancouver, Washington.

The Company offers or makes available a broad range of financial services to its customers, primarily small and medium-sized businesses, professionals, and retail customers. The Bank's commercial and personal banking services include commercial and real estate lending, consumer lending, mortgage origination and trust services. The Company also provided asset-based lending services to companies throughout the western United States through its subsidiary, Business Finance Corporation ("BFC"), from 1998 until its sale and discontinuance of operations in February 2002.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

The interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals necessary for fair presentation of results of operations for the interim periods included herein have been made. The results of operations for the nine months ended September 30, 2003 are not necessarily indicative of results to be anticipated for the year ending December 31, 2003.

3. Cash and Cash Equivalents

For purposes of presentation in the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Federal funds sold generally mature the day following purchase.

4. Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for loan losses and the carrying value of the Company's goodwill. Actual results could differ from those estimates.

(amounts in thousands, except number of shares and per share amounts)

5. Earnings Per Share

The following table reconciles the denominator of the basic and diluted earnings per share computations:

	Three Months Ended September 30,	
	2003	2002
Weighted-average shares – basic	3,872,052	3,779,679
Effect of assumed conversion of stock options	165,579	113,216
Weighted-average shares – diluted	4,037,631	3,892,895

	Nine Months Ended September 30,	
	2003	2002
Weighted-average shares – basic	3,842,438	3,739,441
Effect of assumed conversion of stock options	125,543	85,256
Weighted-average shares – diluted	3,967,981	3,824,697

Options to purchase 275,066 shares of common stock with exercise prices ranging from $7.91 to $12.00, with an average price of $11.09, were outstanding at September 30, 2003 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. These options expire from 2008-2013.

6. Recently Issued Accounting Standards

In April 2003, the Financial Accounting Standards Board (FASB) issued Statement No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company's management does not expect that the application of the provisions of this statement will have a material impact on the Company's consolidated financial statements.

In June 2003, FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards regarding classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires financial instruments within the scope of this statement to be classified as liabilities (or an asset in some circumstances). Many of these financial instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. For financial instruments created before the issuance date of this statement and still existing at the beginning of the interim period of adoption, transition is achieved by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instruments at fair value. The Company's management does not expect that the application of the provisions of this statement will have a material impact on the Company's consolidated financial statements.

(amounts in thousands, except number of shares and per share amounts)

7. Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," requires disclosure about stock-based compensation arrangements regardless of the method used to account for them. As permitted by SFAS No. 123, the Company has decided to apply the accounting provisions of Accounting Principles Board (APB) Opinion No. 25, and therefore discloses the difference between compensation cost included in net income and the related cost measured by the fair value-based method defined by SFAS No. 123, including tax effects, that would have been recognized in the statement of income if the fair value method had been used. Under APB Opinion No. 25, no compensation cost has been recognized for the Company's stock option plans. Had compensation cost for these plans been determined consistent with SFAS No. 123 and recognized over the vesting period, the Company's net income (loss) and earnings (loss) per share would have been reduced to the following pro forma amounts:

	Three Months Ended September 30, 2003		Three Months Ended September 30, 2002		Nine Months Ended September 30, 2003		Nine Months Ended September 30, 2002	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
(unaudited)								
Net income (loss)	$ 320	$ 258	$ 514	$ 442	$ 1,248	$ 977	$ 1,102	$ 904
Basic earnings (loss) per share:								
Continuing operations	$ 0.08	$ 0.07	$ 0.14	$ 0.12	$ 0.32	$ 0.25	$ 0.42	$ 0.37
Discontinued operations	-	-	-	-	-	-	0.08	0.08
Cumulative effect of a change in accounting principle	-	-	-	-	-	-	(0.21)	(0.21)
	$ 0.08	$ 0.07	$ 0.14	$ 0.12	$ 0.32	$ 0.25	$ 0.29	$ 0.24
Diluted earnings (loss) per share:								
Continuing operations	$ 0.08	$ 0.06	$ 0.13	$ 0.11	$ 0.31	$ 0.25	$ 0.42	$ 0.37
Discontinued operations	-	-	-	-	-	-	0.08	0.08
Cumulative effect of a change in accounting principle	-	-	-	-	-	-	(0.21)	(0.21)
	$ 0.08	$ 0.06	$ 0.13	$ 0.11	$ 0.31	$ 0.25	$ 0.29	$ 0.24

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for September 30, 2003 and 2002.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected life (years)	4.17	4.17	4.17	4.17
Expected volatility	49.39%	52.02%	51.85%	52.02%
Risk-free rate	2.87%	4.25%	2.97%	4.25%

(amounts in thousands, except number of shares and per share amounts)

8. Comprehensive Income

For the Company, comprehensive income includes net income reported on the statements of income and changes in the fair value of its available-for-sale investments reported as a component of shareholders' equity.

The components of comprehensive income (loss) for the three months and nine months ended September 30, 2003 and 2002 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
(unaudited)				
Unrealized gain (loss) arising during the period, net of tax	$ (14)	$ 77	$ (96)	$ 407
Less reclassification adjustment for net realized losses on securities available-for-sale included in net income during the period, net of tax	-	32	-	58
Net unrealized gain (loss) included in other comprehensive income	$ (14)	$ 45	$ (96)	$ 349

9. Segments of an Enterprise and Related Information

The Company is principally engaged in community banking activities through its branches and corporate offices. Community banking activities include accepting deposits, providing loans and lines of credit to local individuals, businesses and governmental entities, investing in securities and money market instruments, and holding or managing assets in a fiduciary agency capacity on behalf of its customers and their beneficiaries. The mortgage banking segment, Bay Mortgage, specializes in all facets of residential lending including FHA and VA loans, construction loans and bridge loans. Prior to the sale of Business Finance Corporation in the first quarter of 2002, the Company provided asset-based financing to companies throughout the western United States.

The community banking and mortgage banking activities are monitored and reported by Company management as separate operating segments. The asset-based financing activity, conducted through Business Finance Corporation, was previously considered to be an additional segment of business. However, in the following table for the nine months ended September 30, 2002, this former segment of business is reported as discontinued operations.

The accounting policies for the Company's segment information provided in the following tables are the same as those described for the Company in the summary of significant accounting policies footnote included in the Company's 2002 annual report, except that some operating expenses and the results of discontinued operations are not allocated to segments.

(amounts in thousands, except number of shares and per share amounts)

Summarized financial information for the three months and nine months ended September 30, 2003 and 2002, concerning the Company's reportable segments is shown in the following tables:

	Three Months Ended September 30, 2003				
	Banking	Mortgage Banking	Holding Company	Intersegment	Consolidated
(unaudited)					
Interest income	$ 3,594	$ 543	$ 3	$ (354)	$ 3,786
Interest expense	1,110	313	56	(354)	1,125
Net interest income	2,484	230	(53)	-	2,661
Provision (benefit) for loan losses	126	-	(162)	-	(36)
Non-interest income	473	1,696	6	-	2,175
Non-interest expense	2,709	1,635	61	-	4,405
Income before provision for income taxes	122	291	54	-	467
Provision for income taxes	27	100	20	-	147
Net income	$ 95	$ 191	$ 34	$ -	$ 320
Depreciation and amortization	$ 158	$ 29	$ -	$ -	$ 187

	Three Months Ended September 30, 2002				
	Banking	Mortgage Banking	Holding Company	Intersegment	Consolidated
(unaudited)					
Interest income	$ 4,916	$ 872	$ 4	$ (362)	$ 5,430
Interest expense	2,036	309	59	(362)	2,042
Net interest income	2,880	563	(55)	-	3,388
Provision for loan losses	355	-	(3)	-	352
Non-interest income	430	2,543	-	-	2,973
Non-interest expense	2,793	2,335	80	-	5,208
Income (loss) before provision (benefit) for income taxes	162	771	(132)	-	801
Provision (benefit) for income taxes	67	266	(46)	-	287
Net income (loss)	$ 95	$ 505	$ (86)	$ -	$ 514
Depreciation and amortization	$ 170	$ 27	$ -	$ -	$ 197

The segment information for the three months ended September 30, 2003 includes a credit to the provision for loan losses for the Holding Company segment, generated from the recovery of a previously charged-off loan.

(amounts in thousands, except number of shares and per share amounts)

	Nine Months Ended September 30, 2003				
	Banking	Mortgage Banking	Holding Company	Intersegment	Consolidated
(unaudited)					
Interest income	$ 11,672	$ 2,239	$ 18	$ (1,333)	$ 12,596
Interest expense	3,969	1,204	169	(1,333)	4,009
Net interest income	7,703	1,035	(151)	-	8,587
Provision for loan losses	(526)	-	1,056	-	530
Non-interest income	1,533	6,840	6	-	8,379
Non-interest expense	8,203	6,068	258	-	14,529
Income (loss) before provision (benefit) for income taxes	1,559	1,807	(1,459)	-	1,907
Provision (benefit) for income taxes	533	623	(497)	-	659
Net income (loss)	$ 1,026	$ 1,184	$ (962)	$ -	$ 1,248
Depreciation and amortization	$ 520	$ 84	$ -	$ -	$ 604
Total assets	$ 269,432	$ 22,457	$ 35,568	$ (53,883)	$ 273,574

The segment information for the nine months ended September 30, 2003 includes a reclassification between the Banking and Holding Company segments of $901,000 for the provision for loan losses. This reclassification does not affect the consolidated results of operation or earnings per share, but has resulted in a benefit to the Banking segment presentation for the nine months ended September 30, 2003.

(amounts in thousands, except number of shares and per share amounts)

	Nine Months Ended September 30, 2002				
	Banking	Mortgage Banking	Holding Company	Intersegment	Consolidated
(unaudited)					
Interest income	$ 15,392	$ 2,315	$ 10	$ (1,168)	$ 16,549
Interest expense	6,755	1,022	176	(1,144)	6,809
Net interest income	8,637	1,293	(166)	(24)	9,740
Provision for loan losses	1,055	-	(48)	-	1,007
Non-interest income	1,282	6,503	-	-	7,785
Non-interest expense	8,192	6,034	338	-	14,564
Income (loss) before provision (benefit) for income taxes	672	1,762	(456)	(24)	1,954
Provision (benefit) for income taxes	264	608	(526)	-	346
Net income (loss) from continuing operations before cumulative effect of a change in in accounting principle and discontinued operations	408	1,154	70	(24)	1,608
Cumulative effect of a change in accounting principle, net of tax	-	(791)	-	-	(791)
Net income (loss) from continuing operations	$ 408	$ 363	$ 70	$ (24)	817
Income from discontinued operations, net of tax					285
Net income					$ 1,102
Depreciation and amortization	$ 584	$ 84	$ -	$ -	$ 668
Total assets	$ 356,207	$ 69,504	$ 33,748	$ (97,846)	$ 361,613

(amounts in thousands, except number of shares and per share amounts)

10. Business Acquisitions and Sales:

In February 2002, the Company sold substantially all assets of Business Finance Corporation (BFC) for a pre-tax gain of $423,000, or $279,000 after tax. The sale represents the disposal of a business segment and the gain from disposition has been recorded within discontinued operations for the nine months ended September 30, 2002. The following table summarizes the sale transaction:

Net finance receivables sold	$	2,800
Allowance for finance receivable		(289)
Other assets sold		119
Total assets sold	$	2,630
Loan payable to Company	$	2,800
Other liabilities assumed		212
Cash paid by purchaser		41
Total liabilities assumed	$	3,053
Pre-tax gain on sale	$	423

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations for the Three Months Ended September 30, 2003 and 2002

During the third quarter of 2003 the Company's net income was $320,000, or $0.08 per diluted share, compared to net income of $514,000, or $0.13 per diluted share, in the third quarter of 2002. Net interest income was $727,000 lower for the three months ended September 30, 2003 when compared to the same period of 2002, but the Company benefited from a reduction in the provision for loan losses of $388,000. The third quarter of 2003 includes a credit to the provision for loan losses of $36,000, the result of a $162,000 recovery at the Holding Company of a previously charged-off loan. Both non-interest income and non-interest expenses are approximately $800,000 lower during the third quarter of 2003 when compared to the third quarter of 2002.

Results of Operations for the Nine Months Ended September 30, 2003 and 2002

During the nine months ended September 30, 2003, the Company recorded net income of $1.2 million, or $0.31 per diluted share, compared to net income of $1.1 million, or $0.29 per diluted share, for the comparable period of 2002. Net income from continuing operations prior to a change in accounting principle and discontinued operations (both discussed below) for the first nine months of 2002 was $1.6 million or $0.42 per diluted share. For the first three quarters of 2003, the Company's revenues (net interest income before provision for loan losses plus non-interest income) were $17.0 million, compared to revenues of $17.5 million during the same period in 2002. Non-interest expenses were $14.5 million for the nine months ended September 30, 2003 compared to $14.6 million for the nine months ended September 30, 2002.

During the first quarter of 2002, the Company recorded an impairment charge to the carrying amount of its goodwill from the adoption of Statement of Financial Accounting Standards No. 142, *"Goodwill and Other Intangible Assets"* (SFAS No. 142). The impairment charge was recognized as a result of a transitional goodwill impairment test required by SFAS No. 142. The charge totaled $791,000 or $0.21 per diluted share, net of tax of $417,000. The Company does not currently anticipate additional adjustments or charges related to SFAS No. 142. Net income from continuing and discontinued operations for the first nine months of 2002, prior to this charge, was $1.9 million or $0.50 per diluted share.

Net income for the nine months ended September 30, 2002 also included income from the discontinued operations of Business Finance Corporation (BFC) of $285,000, or $0.08 per diluted share, net of tax. Included in discontinued operations is a gain, net of tax, of $279,000 from the sale of BFC during the first quarter of 2002. The Company originally purchased BFC to diversify its business and to offer asset-based lending services to its customers. However, due to a poor return on investment and the desire to focus resources on the core banking business, the BFC subsidiary was sold in February 2002.

Net income for the nine months ended September 30, 2002 also includes an income tax benefit of $375,000 or $0.10 per diluted share. The deferred tax benefit resulted from a reduction in the Company's valuation allowance held against certain deferred tax assets, which were recorded in the first quarter of 2002 in connection with the sale of BFC. Income from continuing operations before provision for income taxes was $1.9 million and $2.0 million for the first nine months of 2003 and 2002, respectively.

Financial Condition as of September 30, 2003 and December 31, 2002

At September 30, 2003, total assets were $273.6 million and total liabilities were $240.8 million. Total assets have decreased $71.6 million or 20.7% from $345.2 million at December 31, 2002 and liabilities have decreased $73.1 million or 23.3% from $313.9 million at December 31, 2002.

The decline in total assets is due to a reduction of both loans and loans held-for-sale since December 31, 2002. At September 30, 2003, loans were $167.3 million compared to $194.5 million at December 31, 2002, a decline of $27.2 million or 14.0%. This reduction in loans is from a combination of charged-off balances of approximately $1.4 million and balances transferred to repossessed assets of approximately $1.6 million with loan pay-downs and pay-offs accounting for the remaining decline. The rate of decline in loans has slowed during the third quarter of 2003. At June 30, 2003, loans were $168.9 million. During the first six months of 2003 loan pay-offs were relatively high because during that time, many borrowers sought to renew their loans at lower rates. While the Bank makes every effort to be competitive for and retain favorable client relationships, management also used this time as an opportunity to encourage some customers representing weaker credits to seek alternative lending relationships. In other circumstances, the Bank decided not to match rates on loans that management deemed unprofitable.

Loans held-for-sale have decreased $52.4 million or 82.4% from $63.6 million at December 31, 2002 to $11.2 million at September 30, 2003. Although the prime and federal funds rates have declined 25 basis points during the first nine months of 2003, interest rates on mortgage loans have increased in the third quarter. The volumes of loans originated though the Company's mortgage segment has rapidly declined during the third quarter. An average of $119.2 million of residential mortgage loans were originated during each of the first two quarters of 2003, but only $96.4 million were originated during the quarter ended September 30, 2003.

A portion of the cash flows associated with the reductions in loans and loans held-for-sale have been reinvested in the Company's securities portfolio. Total securities are $9.4 million higher at September 30, 2003 than at December 31, 2002. In addition, an investment of $8.0 million was made in bank owned life insurance (BOLI) during the third quarter of 2003. The remaining cash was used to reduce the Company's brokered and out of area certificates of deposit and long-term borrowings as discussed below.

At September 30, 2003, the carrying value of the Company's goodwill is $29,000 lower than the balance at December 31, 2002. During 2001, an estimate of the final earn-out payment related to the purchase of Bay Mortgage of Bellevue, Washington was recognized and resulted in an increase to goodwill of $772,000. After all final adjustments to the earn-out calculation had been recorded and final payments had been made, a balance of $29,000 remained in the payable. During the third quarter of 2003, this balance was reversed against goodwill, resulting in the decline.

Reductions in the volumes of brokered and other higher rate certificates of deposit and borrowings from the Federal Home Loan Bank (FHLB) account for the majority of the decline in total liabilities from December 31, 2002 to September 30, 2003. The Company had $14.6 million in brokered deposits at September 30, 2003, or 6.4% of the $229.5 million total deposits compared to $29.7 million or 10.2% of $290.1 million of total deposits at December 31, 2002. Approximately $4.3 million of these brokered deposits are scheduled to mature during the remainder of 2003. Approximately $18.8 million in public fund certificates matured during the first nine months of 2003 and were not renewed. A reduction of $10.1 million in FHLB borrowings during the first two quarters of 2003 has reduced the Company's long-term borrowings to $8.5 million at September 30, 2003 compared to $18.7 million at December 31, 2002. Because the reduction in loans and loans held-for-sale has generated some excess cash and liquidity, management's current practice is to not renew brokered and public fund certificates or long-term borrowings as they mature. If future circumstances change to warrant increasing liquidity or cash balances, the Company retains the ability to access these funding sources.

Critical Accounting Policies

The Company's most critical accounting policy is related to the allowance for loan losses. The Company utilizes both quantitative and qualitative considerations in establishing an allowance for loan losses believed to be appropriate as of each reporting date. Quantitative factors include:

- historical loss experience,
- recent delinquency and charge-off experience,
- changes in the levels of non-performing loans,
- portfolio size, and
- other known factors regarding specific loans.

Qualitative factors include assessments of the types of loans within the loan portfolio as well as current local, regional, and national economic considerations. Changes in the above factors could have a significant affect on the determination of the allowance for loan losses. Management performs a full analysis, no less often than quarterly, to ensure that changes in estimated loan loss levels are adjusted on a timely basis. For further discussion of this significant management estimate, see "Allowance for Loan Losses."

Another critical accounting policy for the Company is that related to the carrying value of goodwill. During the first quarter of 2002, the Company recorded an impairment charge to the carrying amount of its goodwill related to the adoption of Statement of Financial Accounting Standards No. 142, *"Goodwill and Other Intangible Assets"* (SFAS No. 142). The impairment charge was recognized as a result of a transitional goodwill impairment test required by SFAS No. 142. The Company adopted a market valuation approach in assessing goodwill impairment and will measure the carrying value similarly at least annually under these accounting rules. Ongoing impairment analysis of the fair value of the remaining goodwill will involve a substantial amount of judgment, as will establishing and monitoring estimated amounts and lives of other intangible assets. Also as required upon adoption of SFAS No. 142, the Company ceased amortization of goodwill on January 1, 2002.

Analysis of Net Interest Income

For financial institutions, the primary component of earnings is net interest income. Net interest income is the difference between interest income, principally from loans and the investment securities portfolio, and interest expense, principally on customer deposits and borrowings. Changes in net interest income result from changes in "volume," "spread," and "margin." Volume refers to the dollar level of interest-earning assets and interest-bearing liabilities. Spread refers to the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to total interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

Three months ended September 30, 2003 and 2002

The following table presents interest income and expense and the resulting yields earned, rates paid, interest rate spread, and net interest margin for the periods indicated.

(unaudited) (dollars in thousands)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Increase (Decrease)	Change
Interest Income (1)	$ 3,806	$ 5,431	$ (1,625)	-29.9%
Interest Expense	1,125	2,042	(917)	-44.9%
Net Interest Income	$ 2,681	$ 3,389	$ (708)	-20.9%
Average Interest-Earning Assets	$ 262,643	$ 318,431	$ (55,788)	-17.5%
Average Interest-Bearing Liabilities	$ 199,714	$ 262,140	$ (62,426)	-23.8%
Average Yields Earned (2)	5.80%	6.82%	-1.02%	
Average Rates Paid (2)	2.25%	3.12%	-0.87%	
Net Interest Spread (2)	3.55%	3.70%	-0.15%	
Net Interest Margin (2)	4.08%	4.26%	-0.18%	

(1) Interest earned on non-taxable securities and loans has been computed on a 34% tax equivalent basis
(2) Ratios for the three months ended September 30, 2003 and 2002 have been annualized

Comparing the quarter ended September 30, 2003 to the quarter ended September 30, 2002, interest income declined $1.6 million, interest expense declined $917,000, and tax effected net interest income decreased $708,000. Because yields earned declined more than rates paid, both the net interest spread and the net interest margin for the quarter ended September 30, 2003 were lower than during the quarter ended September 30, 2002.

The overall tax-equivalent average earning asset yield was 5.80% for the quarter ended September 30, 2003 compared to 6.82% for the quarter ended September 30, 2002. Contributing to the decline in interest rates was a 50 basis points reduction in the national federal funds rate and the Company's prime rate in November 2002. These interest rates declined another 25 basis points in June 2003. Earning assets averaged $262.6 million for the three months ended September 30, 2003, a decline of $55.8 million compared to $318.4 million for the same period of 2002. A change in asset mix from loans, loans held-for-sale, and investment securities to lower rate interest-earning deposits has also contributed to a lower overall yield comparing the periods. During the three months ended September 30, 2002, average loans and loans held-for-sale were 76.6% of total average interest-earning assets, and average interest-earning deposits were 5.8% of the total. During the same period of 2003, average loans and loans held-for-sale declined to 73.4% of average interest-earning assets, while average interest-earning deposits increased to 11.0% of the total. Total average investment securities, including both available-for-sale and held-to-maturity, have also declined contributing to the increase in interest-earning deposits. Average investment securities declined from 15.2% to 12.6% of the total average interest-earning assets for the three months ended September 30, 2003 and 2002, respectively.

The average cost of interest-bearing liabilities decreased to 2.25% for the quarter ended September 30, 2003 from 3.12% for the same period of 2002. Average interest-bearing liabilities decreased $62.4 million from $262.1 million for the three months ended September 30, 2002 to $199.7 million for the three months ended September 30, 2003. The majority of the decline in average interest-bearing liabilities is due to a reduction in brokered and public fund certificates of deposit, and FHLB borrowings. At September 30, 2003 the volume of brokered certificates was $14.6 million compared to $28.5 million at September 30, 2002. In addition, public fund certificates of deposit declined by $18.8 million comparing the two quarters. During the third quarter of 2003 the average volume of other borrowed money decreased to $8.5 million from $18.8 million during the third quarter of 2002.

Nine months ended September 30, 2003 and 2002

The following table presents interest income and expense and the resulting yields earned, rates paid, interest rate spread, and net interest margin for the periods indicated.

(unaudited) (dollars in thousands)	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002	Increase (Decrease)	Change
Interest Income (1)	$ 12,636	$ 16,553	$ (3,917)	-23.7%
Interest Expense	4,009	6,809	(2,800)	-41.1%
Net Interest Income	$ 8,627	$ 9,744	$ (1,117)	-11.5%
Average Interest-Earning Assets	$ 282,090	$ 324,190	$ (42,100)	-13.0%
Average Interest-Bearing Liabilities	$ 219,975	$ 270,815	$ (50,840)	-18.8%
Average Yields Earned (2)	5.97%	6.81%	-0.84%	
Average Rates Paid (2)	2.43%	3.35%	-0.92%	
Net Interest Spread (2)	3.54%	3.46%	0.08%	
Net Interest Margin (2)	4.08%	4.01%	0.07%	

(1) Interest earned on non-taxable securities and loans has been computed on a 34% tax equivalent basis
(2) Ratios for the nine months ended September 30, 2003 and 2002 have been annualized

Comparing the nine months ended September 30, 2003 to the nine months ended September 30, 2002, interest income declined $3.9 million, interest expense declined $2.8 million, and tax effected net interest income decreased $1.1 million. The average rates paid declined slightly more than the average yields earned resulting in a modest increase in both the net interest spread and net interest margin when comparing the nine-month periods.

The overall tax-equivalent average earning asset yield was 5.97% for the first nine months of 2003 compared to 6.81% for the same period of 2002. Contributing to the decline in interest rates was a 50 basis points reduction in the national federal funds rate and the Company's prime rate in November 2002. These interest rates declined another 25 basis points in June 2003. Earning assets averaged $282.1 million for the nine months ended September 30, 2003, a decline of $42.1 million compared to $324.2 million for the same period of 2002. A change in asset mix from loans, loans held-for-sale, and investment securities to lower rate interest-earning deposits has also contributed to a lower overall yield comparing the periods. During the nine months ended September 30, 2002, average loans, loans held-for-sale, and securities were 89.1% of total average interest-earning assets, and average interest-earning deposits were 8.9% of the total. During the same period of 2003, average loans, loans held-for-sale, and investment securities declined to 84.4% of average interest-earning assets, while average interest-earning deposits increased to 13.0% of the total.

The average cost of interest-bearing liabilities decreased to 2.43% for the nine months ended September 30, 2003 from 3.35% for the same period of 2002. Average interest-bearing liabilities decreased $50.8 million from $270.8 million for the first three quarters of 2002 to $220.0 million for the same period of 2003. The majority of the decline in average interest-bearing liabilities is due to a reduction in brokered and public fund certificates of deposit and FHLB borrowings as discussed above. During the nine months ended September 30, 2003, the average volume of other borrowed money decreased to $11.4 million from $18.9 million during the same period of 2002.

Provision for Loan Losses

The amount of the allowance for loan losses is analyzed by management on a regular basis to ensure that it is adequate to absorb losses inherent in the loan portfolio as of the reporting date. When a provision for loan losses is recorded, the amount is based on past charge-off experience, a careful analysis of the current loan portfolio, the level of non-performing and impaired loans, evaluation of future economic trends in the Company's market area, and other factors relevant to the loan portfolio. The quarterly provision recorded as an increase to the allowance for loan losses is based upon estimates of probable losses inherent in the loan portfolio. The loss amount actually realized for these loans can vary significantly from the estimated amounts. See the "Allowance for Loan Losses" discussion for additional detail.

Three months ended September 30, 2003 and 2002

The Company's provision for loan losses was a credit of $36,000 for the quarter ended September 30, 2003 compared to $352,000 for the same period of 2002. During the third quarter of 2003, the Banking segment added $126,000 to its provision for loan losses, while the Holding Company recovered $162,000 of a loan previously charged-off. Because the Holding Company does not currently have any loans or an allowance for loan losses, any recovery of previously charged-off amounts flow through the income statement as a credit to the provision expense. For the three months ended September 30, 2003, charge-offs, net of recoveries, were $210,000 compared to net charge-offs of $114,000 for the three months ended September 30, 2002 and $2.3 million for the year ended December 31, 2002.

Nine months ended September 30, 2003 and 2002

The Company's provision for loan losses was $530,000 for the nine months ended September 30, 2003 and $1.0 million for the nine months ended September 30, 2002. Charge-offs, net of recoveries, were $1.1 million for the first nine months of 2003 compared to net charge-offs of $954,000 for the same period of 2002 and $2.3 million for the year ended December 31, 2002.

Future loan loss provisions will be based on Management's quarterly adequacy analysis of the allowance for loan losses. Management anticipates a possible further reduction in future provisions if the economy strengthens and bolsters the Company's borrowers' ability to repay or increases underlying collateral values of the loans.

Non-Interest Income

Three and nine months ended September 30, 2003 and 2002

Non-interest income consists of the following components:

(unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2003	2002	2003	2002
Service charge on deposit accounts	$ 211	$ 191	$ 695	$ 540
Gains on loans sold	1,110	1,323	4,106	3,495
Mortgage brokerage fees	336	858	1,830	2,169
Fiduciary income	70	63	240	205
Escrow fees	244	311	905	726
Credit Card income	175	142	471	399
ATM income	13	4	39	69
Safe deposit box fees	-	1	27	28
Increase in cash surrender value of BOLI	74	-	74	-
Loss on sale of repossessed assets	(87)	(42)	(50)	(21)
Gain on sale of available-for-sale securities	-	49	-	88
Other miscellaneous fees and income	29	73	42	87
Total non-interest income	$ 2,175	$ 2,973	$ 8,379	$ 7,785

Non-interest income was $2.2 million for the quarter ended September 30, 2003, a decline of $798,000 from $3.0 million for the same period of 2002. For the nine-month periods ended September 30, 2003 and 2002, non-interest income was $8.4 million and $7.8 million, respectively, an increase of $594,000. Non-interest income generated by the mortgage banking segment continued to account for the majority of the total non-interest income for the periods. Gains on loans sold, mortgage brokerage fees, and escrow fees were $1.7 million, which accounted for 77.3% of the total non-interest income for the third quarter of 2003, and were $2.5 million or 83.3% for the same period of 2002. These income categories were $6.8 million, or 81.0% of the total non-interest income for the first three quarters of 2003, and were $6.4 million or 82.1% of the total non-interest income for the same period of 2002. The non-interest income generated by the mortgage banking segment is expected to continue to decrease as the volume of mortgage loans originated are declining. An investment of $8.0 million in bank owned life insurance (BOLI) during the third quarter of 2003 has generated $74,000 of non-interest income. Write-downs of the carrying value of certain repossessed assets generated a loss of $87,000 during the period.

Non-Interest Expense

Three and nine months ended September 30, 2003 and 2002

Non-interest expense consists of the following components:

(unaudited) (dollars in thousands)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Salaries and employee benefits	$ 2,208	$ 2,897	$ 7,297	$ 7,915
Net occupancy and equipment	566	572	1,778	1,740
Amortization of intangible assets	66	66	199	199
Net cost of operation of other real estate owned	46	78	147	209
Business taxes	79	139	310	438
Data processing and communications	126	129	363	382
Stationery and supplies	54	68	169	231
Credit card expense	163	135	469	382
Travel and education	65	61	202	147
Loan expense	268	187	469	395
Advertising	47	53	103	135
Professional fees	329	326	1,275	862
Postage and freight	104	131	335	371
Contracted temporary employees	45	20	338	71
FDIC insurance	119	140	390	430
Other miscellaneous expenses	120	206	685	657
Total non-interest expense	$ 4,405	$ 5,208	$ 14,529	$ 14,564

Total non-interest expenses declined $803,000 to $4.4 million for the quarter ended September 30, 2003 compared to $5.2 million for the quarter ended September 30, 2002. For the nine months ended September 30, 2003, total non-interest expenses of $14.5 million were relatively unchanged from $14.6 million for the same period of 2002.

Salary expenses have declined when comparing both the three and nine months ended September 30, 2003 to the same periods of 2002. At September 30, 2003, the Company had 172 full-time equivalent employees compared to 198 at September 30, 2002. During the third quarter of 2003, the volume of mortgage loans originated declined, contributing to a lower commission expense when compared to the third quarter of 2002. During the third quarter of 2003, Bay Mortgage originated $96.4 million of mortgage loans, down $37.5 million from $133.9 million originated during the third quarter of 2002. Partially offsetting a decline in employees were ordinary annual wage increases for many existing employees.

Net occupancy and equipment expenses consist of depreciation on premises and equipment, lease costs, parking, maintenance and repair expenses, utilities and related expenses. The Company's net occupancy expense was relatively steady when comparing the three and nine month periods ended September 30, 2003 to the corresponding periods of 2002.

Although the FDIC insurance premium rate remains unchanged at $.17 per $100 of domestic deposits when comparing the quarters and nine month periods ended September 30, 2003 and 2002, the total expense has declined due to a reduction in deposit volume. The FDIC sets deposit insurance premiums based upon the risks a particular bank or savings association poses to the deposit insurance funds. This system bases an institution's risk category partly upon whether the institution is well capitalized, adequately capitalized or less than adequately capitalized. Each insured depository institution is also assigned to one of three "supervisory" categories based on reviews by regulators, statistical analysis of financial statements and other relevant information. An institution's assessment rate depends upon the capital category and supervisory category to which it is assigned. Annual assessment rates currently range from zero per $100 of domestic deposits for the highest rated institution to $0.27 per $100 of domestic deposits for an institution in the lowest category. Under legislation enacted in 1996 to recapitalize the Savings Association Insurance Fund, the FDIC is authorized to collect assessments against insured deposits to be paid to the Financing Corporation ("FICO") to service FICO debt incurred in the 1980's. The current FICO assessment rate for BIF insured deposits is $0.0162 per $100 of deposits per year. Any increase in deposit insurance of FICO assessments could have an adverse effect on Cowlitz Bank's earnings.

Professional fees include exam and audit expenses, accounting, consulting and legal fees, and other professional fees. These expenses were unchanged from quarter to quarter, but have increased to $1.3 million for the nine months ended September 30, 2003 compared to $862,000 for the nine months ended September 30, 2002 Approximately $63,000 of the $413,000 increase comparing the nine month periods is legal expenditures for advice and opinions related to contracts, regulatory documentation, collection and repossession of loans, and various other administrative issues. Another $287,000 of the remaining increase comparing the nine month periods is attributable to consultation to establish or improve internal controls and procedures to improve regulatory reporting, and for employee placement services.

Loan expenses for the nine month period ended September 30, 2003 include approximately $100,000 resulting from the write-off of prepaid mortgage loan expenses. These expenses, including appraisals and credit reports, were prepaid on behalf of potential borrowers when they applied for a mortgage loan. In some cases, these expenses were not collected from the borrower at the close of the loan, or the loan never closed. A recent review of prepaid mortgage expenses indicated these items should be charged to expense.

Contracted temporary employees have been utilized during 2003 to assist management on various special projects and to help during the transition of new management. The third quarter saw a reduction in the number and cost of these temporary employees, a trend Management expects to continue for the remainder of 2003. Business taxes are based on adjusted revenues, and the expense has declined when comparing the periods of 2003 to the periods of 2002 as overall revenues have declined. Although credit card expenses have increased during the three and nine months ended September 30, 2003 when compared to the same periods of 2002, an increase to the non-interest income associated with credit card fees has offset the higher expenses.

Income Taxes

Three months ended September 30, 20003 and 2002

During the third quarter of 2003 the provision for income taxes was $147,000 compared to $287,000 for the third quarter of 2002. These provisions resulted in an effective tax rate of 31.5% and 35.8% for the quarters ended September 30, 2003 and 2002, respectively.

Nine months ended September 30, 2003 and 2002

During the first three quarters of 2003 the provision for income taxes was $659,000 compared to $346,000 for the first three quarters of 2002. These provisions resulted in an effective tax rate of 34.6% and 17.7% for the same periods of 2003 and 2002, respectively. The second quarter of 2002 includes a $375,000 tax benefit related to the reversal of a deferred tax valuation allowance resulting from the sale of BFC in the first quarter of 2002. The sale of BFC generated a capital loss for tax purposes and a deferred tax asset on the Company's books, which was fully reserved as of the end of the first quarter of 2002. During the second quarter of 2002, the Company identified certain strategies for federal income tax purposes that resulted in the reversal of the valuation allowance with a corresponding income tax benefit of $375,000 for the period. The effective tax rate for the third quarter of 2002, excluding the $375,000 benefit, was 36.9%. The results from discontinued operations and the cumulative effect of a change in accounting principles disclosed on the consolidated statements of income are net of income taxes.

Loans

Total loans outstanding were $167.3 million and $194.5 million at September 30, 2003 and December 31, 2002, respectively. Loan commitments such as home equity and other lines of credit, unused available credit on credit cards, and letters of credit, were $41.2 million at September 30, 2003 and $39.9 million at December 31, 2002. In addition, the Company had $11.2 million of loans held-for-sale at September 30, 2003 compared to $63.6 million at December 31, 2002. During the first nine months of 2003, the Company funded $334.8 million of loans to be sold into the secondary market, and delivered $391.3 million to the market. This compares to $312.4 million funded and $304.0 million delivered during the first nine months of 2002.

The following table presents the composition of the Company's loan portfolio at the dates indicated:

(unaudited)	September 30, 2003		December 31, 2002	
(dollars in thousands)	Amount	Percent	Amount	Percent
Commercial	$ 37,585	22.39%	$ 42,200	21.62%
Real estate construction	19,976	11.90%	37,229	19.07%
Real estate commercial	78,915	47.00%	82,763	42.41%
Real estate mortgage	27,534	16.40%	28,370	14.53%
Consumer and other	3,886	2.31%	4,626	2.37%
	167,896	100.00%	195,188	100.00%
Deferred loan fees	(589)		(682)	
Total loans	167,307		194,506	
Allowance for loan losses	(5,621)		(6,150)	
Total loan, net	$ 161,686		$ 188,356	

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of potential losses that have occurred as of the date of the financial statements. The loan portfolio is regularly reviewed to evaluate the adequacy of the allowance for loan losses. In determining the level of the allowance, the Company evaluates the amount necessary for specific non-performing loans and estimates losses inherent in other loans. An important element in determining the adequacy of the allowance for loan losses is an analysis of loans by loan rating categories. At a loan's inception, management evaluates the credit risk by using a grading system. This grading system currently includes ten levels of risk. Risk gradings range from "1" for the strongest credits to "10" for the weakest. A "10" rated loan would normally represent a loss, and all loans rated 7-10 collectively comprise the Company's "watch list". The specific grades from 7-10 are "special mention", "substandard", "doubtful", and "loss", respectively. When indicators such as operating losses, collateral impairment or delinquency problems show that a credit may have weakened, the credit will be downgraded as appropriate. Similarly, as borrowers bring loans current, show improved cash flows, or improve the collateral position of a loan, the credits may be upgraded. Management reviews all credits periodically for changes in such factors. The result is an allowance with four components, specific reserves, a general allowance, special reserves, and unallocated reserves.

- *Specific.* Specific reserves may be assigned to loans graded substandard or worse to cover the amount of exposure the bank has calculated for each loan, in accordance with FASB 114. In some cases a specific reserve may be assigned to better graded credits for specific reasons. Depending on the circumstances of a particular loan, specific reserves may be higher or lower than the general reserve percentage applied to the pool of loans within that loan grade.
- *General.* For all loans, the bank uses estimates based on its previous experience for each grade of loan to calculate the appropriate loan loss reserve. Loans with specific reserves are excluded from the calculation of general reserves.
- *Special.* From time to time, special reserves will be established to facilitate a change in bank strategy. This happens only when the bank intentionally embarks on a strategy that has more than a normal amount of credit risk associated with it. Special allocations are also made to cover suspected valuation shortfalls in loans potentially suffering repossession, to establish a reserve for concentrations of credit, or for some other special loan categories.
- *Unallocated.* The Bank may from time to time increase the loan loss allowance by adding an unallocated reserve to the allowance. Unallocated reserves are used to offset possible increased credit risk in the loan portfolio due to adverse local, regional, and/or national economic conditions, or possible increased risk due to other factors identified by Management.

Management establishes the allowance for loan losses by analyzing the volume and mix of the existing loan portfolio, in addition to other factors. Management analyzes:

- the volume and severity of non-performing loans and adversely classified credits;
- the level of net charge-offs previously experienced;
- the nature and value of collateral securing the loans;
- the trend in loan growth, including any rapid increase in loan volume within a relatively short period of time;
- the general and local economic and business conditions affecting the Company's ability to collect on these loans;
- the relationship and trend over the past several years of recoveries in relation to charge-offs; and
- any changes in lending policies, lending management, or the loan review system.

Management also attempts to ensure that the overall allowance appropriately reflects a margin for the imprecision necessarily inherent in estimates of expected loan losses.

The quarterly analysis of all components of the allowance is the principal method relied upon by management to ensure that changes in estimated loan loss levels are adjusted on a timely basis. The inclusion of historical loss factors in the process of determining the general component of the allowance also acts as a self-correcting mechanism of management's estimation process, as loss experience more remote in time is replaced by more recent experience. In its analysis of the specific and the general components of the allowance, management also considers regulatory guidance in addition to the Company's own experience. There have been no changes to the Company's allowance for loan losses related to changes in methods or assumptions since December 31, 2002. Any adjustments or changes in the elements and components of the allowance since year-end are primarily the result of loan quality assessments and variations in total loan volumes.

Loans and other extensions of credit deemed uncollectible are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. Actual losses may vary from current estimates and the amount of the provision may be either greater than or less than actual net charge-offs. The related provision for loan losses that is charged to income is the amount necessary to adjust the allowance to the level determined through the above process.

Management's evaluation of the loan portfolio resulted in total allowances for loan losses of $5.6 million and $6.2 million at September 30, 2003 and December 31, 2002, respectively, a decline of approximately $600,000. The allowance, as a percentage of total loans, increased from 3.2% at year-end 2002 to 3.4% at September 30, 2003. Management believes the allowance for loan losses at both September 30, 2003 and December 31, 2002 is adequate to absorb potential losses.

In accordance with the Company's methodology for assessing the appropriate allowance for loan losses, the general portion of the allowance was $2.6 million at September 30, 2003 compared to $4.1 million at December 31, 2002. The general allowance has decreased from period to period as the volume of total loans has declined, and as loans on the Company's watch list requiring a higher reserve allocation have been upgraded to levels requiring a smaller reserve percentage. During the first nine months of 2003, the volume of loans on the Company's watch list has decreased by approximately $9.3 million.

At September 30, 2003, approximately $2.1 million of the allowance for loan losses was allocated based on an estimate of the amount that was necessary to provide for potential losses related to specific loans, an increase from $1.6 million at December 31, 2002.

The combined special and unallocated allowance was $876,000 and $460,000 at September 30, 2003 and December 31, 2002, respectively. Although the volume of loans requiring specific or general reserves has declined, the combined special and unallocated allowance has increased to reflect imprecision in the valuation process and the continuing weakness in local economies.

The allowance for loan losses is based upon estimates of probable losses inherent in the loan portfolio. The amount actually observed for these losses can vary significantly from the estimated amounts. The following table shows the Company's loan loss performance for the periods indicated.

(unaudited) (balances exclude amounts from discontinued operations) (dollars in thousands)	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002	Year Ended December 31, 2002
Loans outstanding at end of period, net of deferred fees (1)	$ 167,307	$ 215,266	$ 194,506
Average loans outstanding during the period	$ 176,470	$ 224,155	$ 219,231
Allowance for loan losses, beginning of period	$ 6,150	$ 5,710	$ 5,710
Loans charged off:			
Commercial	818	925	2,111
Real Estate	488	164	415
Consumer	71	7	7
Credit Cards	30	79	83
Total loans charged-off	1,407	1,175	2,616
Recoveries:			
Commercial	84	78	99
Real Estate	205	126	156
Consumer	52	1	1
Credit Cards	7	16	17
Total recoveries	348	221	273
Provision for loan losses	530	1,007	2,783
Allowance for loan losses, end of period	$ 5,621	$ 5,763	$ 6,150
Net loans charged-off during the period	1,059	954	2,343
Ratio of net loans charged-off to average loans outstanding	0.60%	0.43%	1.07%
Ratio of allowance for loan losses to loans at end of period	3.36%	2.68%	3.16%

(1) Excludes loans held-for-sale

Impaired Loans

The Company, during its normal loan review procedures, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered to be impaired during a period of minimal delay (less than 90 days) unless available information strongly suggests impairment. The Company measures impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair market value of the collateral if the loan is collateral dependent. Impaired loans are charged to the allowance when management believes that, after considering economic and business conditions, collection efforts, and collateral position, the borrower's financial condition indicates that collection of principal is not probable.

Generally, no interest is accrued on loans when factors indicate collection of interest is doubtful or when principal or interest payments become 90 days past due, unless collection of principal and interest are anticipated within a reasonable period of time and the loans are well secured. For such loans, previously accrued but uncollected interest is charged against current earnings, and income is only recognized to the extent payments are subsequently received and collection of the remaining recorded principal balance is considered probable.

Non-Performing Assets

Non-performing loans include all loans greater than 90 days past due with respect to either principal or interest, and all loans to which the accrual of interest has been suspended. These loans, combined with repossessed real estate and other repossessed assets, are collectively considered to be non-performing assets. The following table presents information on all non-performing assets:

(unaudited) (dollars in thousands)	September 30, 2003	December 31, 2002
Loans on non-accrual status	$ 5,481	$ 5,097
Loans past due greater than 90 days but not on non-accrual status	15	982
Other real estate owned	1,233	1,304
Other repossessed assets	2	4
Total non-performing assets	$ 6,731	$ 7,387
Total assets	$ 273,574	$ 345,164
Percentage of non-performing assets to total assets	2.46%	2.14%

At September 30, 2003 non-performing assets were $6.7 million or 2.46% of total assets compared to $7.4 million or 2.14% of total assets at December 31, 2002. Comparing the balances at December 31, 2002 to the balances at September 30, 2003, an increase of $384,000 in total non-accrual loans has been offset by a decrease of $967,000 in loans over 90 days past due but still accruing, and a decline of $71,000 in the balance of other real estate owned. Approximately $4.5 million of the $5.5 million of non-accrual loans at September 30, 2003 are primarily secured by real estate and the remainder consists of commercial and consumer loans with varying collateral. Any losses on non-accrual loans that are considered probable have been estimated by management in its routine assessment of the allowance for loan losses as discussed above.

Other real estate owned was $1.2 million at September 30, 2003, a slight decrease compared to $1.3 million at December 31, 2002. During the first nine months of 2003, multiple properties were sold or had a reduction in their carrying value resulting in a $1.7 million decline in the balance of other real estate owned. During the same time period of 2003, $1.6 million of properties were repossessed and added to the carrying value of other real estate owned.

The Company is actively working on identifying and reducing the level of non-performing assets, and has undertaken a more aggressive approach relating to the collection and ultimate reduction of non-performing assets. As these impaired loans are brought current, charged-off, or the repossessed collateral sold, the level of non-performing assets is expected to decrease.

Consistent with the Company's strategy to reduce the level of non-performing assets, subsequent to September 30, 2003, $5.3 million of commercial and real estate loans were sold to investors at an average of 76% of loan balance at the time of sale, net of selling costs. Approximately $4.3 million of these loans were reported on non-accrual status at September 30, 2003. The difference between the sales price and the loan balance was charged against the allowance for loan losses, resulting in a reduction to the allowance of approximately $1.3 million.

Liquidity

Liquidity represents the ability to meet deposit withdrawals and fund loan demand, while retaining the flexibility to take advantage of business opportunities. The Company's primary sources of funds have been customer and brokered deposits, loan payments, sales or maturities of investments, sales of loans or other assets, borrowings, and the use of the federal funds market.

As of September 30, 2003, approximately $10.8 million of the securities portfolio is scheduled to mature within one year, and another $2.3 million is callable within one year. The maturities of mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the current expected maturity of the underlying collateral. Mortgage-backed securities may mature earlier than their stated contractual maturities because of accelerated principal repayments of the underlying loans.

Historically the Company has utilized borrowings from the FHLB as an important source of funding for its growth. Currently, the Company is permitted to borrow, for periods of up to one year, amounts equal to a discounted value of assets, including certain loans and securities, physically delivered to the FHLB. The Company's current advances from the FHLB have original maturities ranging from 4 through 15 years and at September 30, 2003, bear interest at rates ranging from 6.11% to 8.62%. The remaining maturities of the Company's FHLB advances range from 6 months through 6 years. Because the Company had excess cash on hand during the first nine months of 2003, $10.1 million of advances matured and were not renewed. At September 30, 2003, $5.7 million in advances were outstanding from the FHLB compared to $15.8 million at December 31, 2002.

Currently, the Company's relatively high liquidity is related to changes in the origination volume of loans held-for-sale. In order to take advantage of income generated from high volumes of mortgage lending during 2002 and 2001, the Company utilized brokered certificates of deposit to help fund the mortgage lending growth. As loans held-for-sale and other loan volumes have declined, the excess funds generated have been deposited in the Company's cash account with the FHLB. To offset this increase in cash and the resulting increase in liquidity, high rate brokered certificates of deposit have not been renewed as they mature. At September 30, 2003, brokered certificates of deposit have decreased to $14.6 million or 6.4% of total deposits compared to $29.7 million or 10.2% of total deposits at December 31, 2002 and to $56.7 million or 18.0% of total deposits at December 31, 2001. An additional $18.8 million of public funds certificates of deposit matured during the first three quarters of 2003, and have not been renewed. During the first nine months 2003, total loans have decreased $27.2 million and loans held-for-sale have declined $52.4 million, offsetting the reduction in deposits and FHLB borrowings.

Regulatory Capital

The Company and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on Cowlitz Bancorporation's and Cowlitz Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Cowlitz Bancorporation and Cowlitz Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Cowlitz Bancorporation's and Cowlitz Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The following table presents selected capital information for the Company and the Bank as of September 30, 2003 and December 31, 2002:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2003						
Total risk-based capital:						
Consolidated	$ 32,143	16.02%	$ 16,049	≥8.00%	$ 20,062	≥10.00%
Bank	$ 33,363	16.64%	$ 16,037	≥8.00%	$ 20,047	≥10.00%
Tier 1 risk-based capital:						
Consolidated	$ 29,596	14.75%	$ 8,025	≥4.00%	$ 12,037	≥6.00%
Bank	$ 30,819	15.37%	$ 8,019	≥4.00%	$ 12,028	≥6.00%
Tier 1 (leverage) capital:						
Consolidated	$ 29,596	10.47%	$ 11,303	≥4.00%	N/A	N/A
Bank	$ 30,819	10.91%	$ 11,296	≥4.00%	$ 14,120	≥5.00%
December 31, 2002						
Total risk-based capital:						
Consolidated	$ 30,732	12.56%	$ 19,582	≥8.00%	$ 24,477	≥10.00%
Bank	$ 31,380	12.83%	$ 19,564	≥8.00%	$ 24,455	≥10.00%
Tier 1 risk-based capital:						
Consolidated	$ 27,634	11.29%	$ 9,791	≥4.00%	$ 14,686	≥6.00%
Bank	$ 28,285	11.57%	$ 9,782	≥4.00%	$ 14,673	≥6.00%
Tier 1 (leverage) capital:						
Consolidated	$ 27,634	8.05%	$ 13,728	≥4.00%	N/A	N/A
Bank	$ 28,285	8.28%	$ 13,668	≥4.00%	$ 17,085	≥5.00%

Quantitative measures established by regulation to ensure capital adequacy require Cowlitz Bancorporation and Cowlitz Bank to maintain minimum amounts and ratios (set forth in the tables above) of Tier 1 capital to average assets, and Tier 1 and total risk-based capital to risk-weighted assets (all as defined in the regulations). Currently, under a regulatory consent order issued by the FDIC, Cowlitz Bank is required to maintain a Tier 1 leverage capital ratio of at least 8%. Management believes that as of September 30, 2003 and December 31, 2002, Cowlitz Bancorporation and Cowlitz Bank met or exceeded all relevant capital adequacy requirements.

Regulatory Consent Order

On May 15, 2003, effective May 25, the FDIC, Cowlitz Bank's primary federal regulator, issued a Consent Order requiring a series of affirmative actions to address weaknesses and deficiencies identified in an earlier examination of the Bank with respect to its condition as of September 30, 2002. Since the examination date, the Bank has taken a number of steps to address the requirements, chief among them was hiring the replacements for the previous President/Chief Executive Officer and Credit Administrator. Under the Order, the Bank, among other things, will: refrain from paying any dividends without FDIC consent; review its strategic, profitability and liquidity plans; provide progress reports to the FDIC; maintain its well-capitalized status pursuant to a capital plan to ensure Tier 1 capital equaling or exceeding 8.0% of the Bank's total assets; establish and maintain an adequate allowance for loan and lease losses; refrain from extending credit to borrowers whose previous loans have been charged off; undertake a full internal audit of its Bay Mortgage division; retain an internal auditor and formulate and implement an effective internal audit policy; and will reduce the amount of classified assets identified in the examination to no more than 50% of Tier 1 capital plus the allowance for loan and lease losses by November 30, 2003 and will further reduce the amount to no more than 25% by December 31, 2004. If the Bank fails to adhere to the terms of the Order, the FDIC is empowered by federal statutes and regulations to assess civil monetary penalties or initiate other enforcement actions against the Bank, its management or the Board of Directors. Management believes the Bank is, or within the timelines set forth in the Order, will be, in compliance with the requirements of the Order.

Specifically, the Bank has not paid any dividends, has revised its strategic, profitability, and liquidity plans, which have been submitted to the FDIC for review, and has provided progress reports as required by the Order. The Bank's current Tier 1 leverage ratio is 10.91%, exceeding the requirement to maintain Tier 1 capital at 8% of the Bank's total assets. Management believes that it has followed the provisions of the Order that require the Bank to establish and maintain an adequate allowance for loan losses and to refrain from extending credit to borrowers as outlined in the Order. The Bank's previously engaged internal audit firm has undertaken a full audit of the Bay Mortgage division. An internal auditor has been hired and will work with the Bank's current internal audit firm to formulate and implement an effective internal audit policy. From December 31, 2002 to September 30, 2003, the amount of classified assets identified in the examination had been reduced to 35.5% of Tier 1 capital plus the allowance for loan and lease losses. The objective of no more than 50% has been reached prior to the November 30, 2003 target date. Subsequent to the sale of non-performing assets during October 2003 as discussed under the "non-performing assets" header, this ratio has declined to 22.9% at October 31, 2003, below the December 31, 2004 requirement of no more than 25%.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Credit Risk

The Company, like other lenders, is subject to credit risk, which is the risk of losing principal and interest due to customers' failure to repay loans in accordance with their terms. Although the Company has established lending criteria and an adequate allowance for loan losses to help mitigate credit risk, a continued downturn in the economy or the real estate market or a rapid increase in interest rates could have a negative effect on collateral values and borrowers' ability to repay. The Company's targeted customers are small to medium-size businesses, professionals and retail customers that may have limited capital resources to repay loans during a prolonged economic downturn.

Interest Rate Risk

The Company's earnings are largely derived from net interest income, which is interest income and fees earned on loans and investment income, less interest expense paid on deposits and other borrowings. Interest rates are highly sensitive to many factors that are beyond the control of the Company's management, including general economic conditions, and the policies of various governmental and regulatory authorities. As interest rates change, net interest income is affected. With fixed rate assets (such as fixed rate loans) and liabilities (such as certificates of deposit), the effect on net interest income depends on the maturities of the assets and liabilities. The Company's primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Company's net interest income and capital, while structuring the Company's asset/liability position to obtain the maximum yield-cost spread on that structure. Interest rate risk is managed through the monitoring of the Company's gap position and sensitivity to interest rate risk by subjecting the Company's balance sheet to hypothetical interest rate shocks. In a falling rate environment, the spread between interest yields earned and interest rates paid, may narrow, depending on the relative level of fixed and variable rate assets and liabilities. In a stable or increasing rate environment the Company's variable rate loans will remain steady or increase immediately with changes in interest rates, while fixed rate liabilities, particularly certificates of deposit will only re-price as the liability matures.

Item 4. Controls and Procedures

In July 2003, the Company evaluated, under the supervision and the participation of Management, including the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of disclosure controls and procedures. Based on that evaluation, Management, including the Chief Executive Officer and Chief Financial Officer, concluded that disclosure controls and procedures were effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company from time to time enters into routine litigation resulting from the collection of secured and unsecured indebtedness as part of its business of providing financial services. In some cases, such litigation will involve counterclaims or other claims against the Company. Such proceedings against financial institutions sometimes also involve claims for punitive damages in addition to other specific relief. The Company is not a party to any litigation other than in the ordinary course of business. In the opinion of management, the ultimate outcome of all pending legal proceedings is not expected, individually or in the aggregate, to have a material adverse effect on the financial condition or the results of operations of the Company.

Item 2. Changes in Securities and Use of Proceeds

Not applicable

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits. The following constitutes the exhibit index.

3.1*	Restated and Amended Articles of Incorporation of Registrant
3.2*	Bylaws of Registrant
31.1	Certification of Chief Executive Officer
31.2	Certification Chief Financial Officer
32	Certification of Chief Executive Officer and Chief Financial Officer

* Incorporated by reference from Registration Statement on Form S-1, Reg. No. 333-44355

(b) The Company did not file any reports on Form 8-K during the quarter ended September 30, 2003.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 12, 2003

Cowlitz Bancorporation
(Registrant)

By:

/s/ Richard J. Fitzpatrick

Richard J. Fitzpatrick, President and Chief Executive Officer

/s/ Donna P. Gardner

Donna P. Gardner, Vice-President, Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Richard J. Fitzpatrick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cowlitz Bancorporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ Richard J. Fitzpatrick

Richard J. Fitzpatrick, Chief Executive Officer
Cowlitz Bancorporation

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donna P. Gardner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cowlitz Bancorporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ Donna P. Gardner

Donna P. Gardner, Chief Financial Officer
Cowlitz Bancorporation

Exhibit 32

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

This certification is given by the undersigned Chief Executive Officer and Chief Financial Officer of Cowlitz Bancorporation (the "Registrant") pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Each of the undersigned hereby certifies, with respect to the Registrant's quarterly report of Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Richard J. Fitzpatrick
Richard J. Fitzpatrick
Chief Executive Officer
Cowlitz Bancorporation

/s/ Donna P. Gardner
Donna P. Gardner
Chief Financial Officer
Cowlitz Bancorporation

November 12, 2003